

## **Public Budget Ratcheting: Do Malaysia Federal Government Agencies Adjust Their Budgets Based on Expenditure Variances?**

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### **ABSTRACT**

Public budget is an important role in achieving a country's economic and social development goals. It essentially requires that an entire government budget be managed effectively and efficiently to ensure attainment of those goals as well as well-being of the citizens. Therefore, it is necessary to examine government spending behaviour and the process of budget preparation. This study looks into the relationship between changes in current budget and expenditure variances, in particular, operating expenditure of the Malaysia federal government. The influence of expenditure variances (overspending/ under spending) on current budget changes is examined to determine if prior year expenditure variances cause non-symmetry changes in current budget so as to identify the presence of budget ratcheting. Dynamic Panel Regression Analysis is used to examine the data from forty four government agencies/programs, covering the period from 2010 until 2014. The findings reveal that there is a significant positive association between changes in current budget with prior year overspending by agency/program. However, the relationship between changes in current budget with prior year underspending by agency/program is not significant. The contribution of the research highlights that the presence of budget ratcheting among the federal government agencies/programs of public organisations needs to be indicated to enhance budget administration regarding ratcheting.

Key words: Budget Ratcheting, Expenditure Variances, Auto Correlation and Panel Regression  
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### **INTRODUCTION**

Government budget is an important tool for every country to attain its economic and social development goals. It is far more important than those in private sector because of its pivotal role in ensuring equitable distribution of wealth to all citizens. There are two major components in government budget, namely revenues and expenditures. Budgeting in public sector differs from private sector. While private sector focuses on budgeting earnings, public sector budgets expenditures (Lee & Plummer, 2007). Hence, analysing government spending behaviour is vital to ensure allocation of resources is done in a responsive, efficient and effective manner.

Malaysia government has implemented Outcome Based Budgeting starting year 2012 to improve public budget management following increasing fiscal challenges. However, it is of common perception that government expenditures are associated with non-optimal spending.